

OECD Meeting of Social Policy Ministers Building a Fairer Future: The Role for Social Policy

2-3 May 2011

BIAC Discussion Note

Introduction

The global economic crisis adversely hit businesses, employees and families alike. In the recovery, many OECD economies continue to face persistent high unemployment rates and rising concerns about long-term unemployment for individuals and in particular for youth. Social policies continue to play an important role in providing support to individuals who face employment transition or continue to be unemployed and to companies to sustain jobs.

If well-designed and implemented effectively, they can be a powerful tool to complement labour market policies in supporting employment creation and the successful move of unemployed workers back into the labour market. “Active” social policies should provide incentives to work, and must be inclusive in reaching all groups, especially the most vulnerable including youth, as well as older, disabled, and low skilled workers.

While economic situations vary across countries, the long-term financial sustainability of social benefit systems is a key concern for all. Currently many economies are addressing significant fiscal pressures, as well as demographic trends such as aging populations. Thus, social policies must be designed and implemented in a way that is efficient, well targeted and effective.

Social policies must be considered in the broader context of the economy. Governments must ensure coherence between social policies and other relevant policy areas including: economic policy, finance, employment, taxation, provision of public services and infrastructure, education, investment, and labour mobility/immigration. Good governance, and efficient, effective and transparent systems, including simplified administration and information access are also necessary for effective and sustainable social policy.

Social policies should also be developed through active and meaningful social dialogue. In this spirit, BIAC welcomes this opportunity to contribute to the OECD Meeting of Social

Policy Ministers and the Policy Forum on Income Inequality, and is pleased to provide its views on the four topics addressed by the Ministerial:

1. Social Policies for Recovery
2. Doing Better for Families
3. Intergenerational solidarity
4. Tackling Inequality

I. Economic Crisis and Beyond: Social policies for the recovery

Many governments continue to implement austerity measures in the economic recovery, and must do “more with less.” Social security, social benefit and pension systems are under increasing financial pressures given recession, reduced budgets and ageing populations. Social policies must therefore be cost efficient, support private sector job creation, support longer working lives, and be targeted to those most in need – providing necessary response in the short term, and supporting a return to sustainable growth in the long term.

Social security systems should simultaneously protect and provide the right incentives for those who can work, to work and should managed by the highest possible standards of administrative rigour, transparency, and sound financial management.

The following are recommended actions for governments as they develop social policies in the recovery:

- **Ensure that social policies support private sector growth:** Social policies should be designed in a way that encourages entrepreneurial activity, innovation, higher productivity, enterprise creation, and competitive business environments. Examples include: reducing barriers to private sector employment by “making work pay”, and reducing high non-wage labour costs such as health care and social security payments for employers.
- **Ensure that social policy supports employment:** The best form of social protection is a formal job. Social policies must be effectively linked with active labour market policies (ALMP), including education and training policies, in order to support individuals through periods of unemployment and ensure that they are directed to, and prepared for, new work opportunities. A mutual obligation approach to benefit eligibility (including work-for-benefits style programmes) can be an effective means to assist unemployed back into work.
- **Ensure that social policies support labour market flexibility, including temporary and part time work:** Flexible forms of employment, including temporary and part time work, increase labour market participation, reduce the risk of the low-skilled being trapped in long-term unemployment, and can lower recruitment barriers in what may otherwise be highly regulated labour markets.

The regulatory landscape for flexible work arrangements varies across OECD countries. In some cases flexible workers have no access to unemployment support, but the reverse is true in many countries. Thus policy makers should ensure that

social benefit systems cover flexible working arrangements by effectively linking social protection to all contract types, without privileging only permanent, full-time work. Extending social protection to all types of workers will help to extend labour market participation of all groups.

- **Target the most vulnerable:** Social protection systems must focus on those most vulnerable to unemployment and less likely to be re-employed – for example youth, as well as older, disabled, and low skilled workers. It is critical that social safety nets effectively reach these groups, and support them in their transition to work, encourage attainment of higher wages, and work to avoid long term detachment from the labour market.

Social benefit systems must ensure that individuals and in particular low skilled, low income earners, are not discouraged from taking up formal employment opportunities by schemes that result in a sudden significant drop off of income supports and social benefits as their income increases. Such schemes are counterproductive, as they ultimately discourage workers from making significant improvements in their earnings ability over the longer term.

- **Reduce informal work:** It is important to identify and remove barriers to formality in each country, for example, excessive taxation and unduly rigid labour laws, and to properly target efforts to assist the formalisation of work. Social policy can encourage formal work through provision of social benefits and effective public and social services. Likewise formality supports the financial sustainability of social benefit systems.
- **Invest in developing and improving public services:** Public services, including health, education, child care services, transportation and housing infrastructure, are important elements of an effective social safety net, as well as important contributors to ensuring that people have the best chances to find and remain in employment. These sectors are also a source of future jobs, and education and training should be targeted accordingly. Effective public private partnership can support these efforts, especially in time of fiscal constraint.

II. Strengthening Families

Social policy plays an important role in strengthening the economic and societal well being of families. This requires that policies provide clear incentives to work, and provide frameworks and infrastructure to support working families, for example through provision of child care, maternity/paternity leave, and leave for family care giving.

Some specific business recommendations include:

- **Make work pay for families:** Income supports and social benefits, as well as tax systems, must be designed in a way that makes work pay for families. Tax systems should be designed to encourage family members to work and not penalise wage earners. Available and affordable public and private childcare facilities are necessary,

and governments should look for ways to further develop and promote such facilities. When social benefits such as family or child support are used, they should be targeted to activate employment, rather than creating disincentives to work.

- **Support family friendly workplaces:** The wellbeing of a company's employees is essential to its productivity and success. Policy frameworks that give companies scope for flexible working arrangements to accommodate family care needs are particularly important for working families.
- **Support women's economic empowerment:** Policies that support engagement of women at work benefit families, economies and societies as a whole. Tax, finance, education, health care and child care policies, in addition to offers of innovative and flexible forms of work, are essential to activating and to keeping women in work. Promoting entrepreneurship can be a significant pathway for women to work in developed and developing countries alike. Training, access to finance, technological support, administrative simplification, and networking opportunities are elements that may further support women's engagement in the workplace.

III. Paying for the past, providing for the future: Intergenerational Solidarity

Concern over the sustainability of social benefit systems has intensified recently with fiscal consolidation pressures and the continued ageing of societies. Fostering intergenerational solidarity has an important role in responding to these concerns.

Strengthening intergenerational solidarity is inextricably linked with active labour market policies, comprehensive lifelong learning, and modern social security systems that activate people into work and encourage them to work longer, eliminating unconditional income support and disincentives to work.

An intergenerational approach should aim to:

- Avoid shifting the burden of present policies onto future generations by pursuing sound public finances with progressive removal of public deficits, including the reform of pensions and health care systems;
- Improve efficiency of education and training systems in order to provide access to lifelong learning for all age groups, especially by the rapid integration of new skills to raise employability;
- Increase the employment rate of older workers in particular by discouraging and progressively removing incentives for early exit from the labour market, and providing incentives for employers to employ and retain older workers;
- Implement human resource policies that support effective employment of workers at all ages;

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- Implement pension reforms that encourage work beyond retirement and ensure long term financial sustainability of pension benefit systems;
 - Target social policies to support care-giving, including long term care.

IV. Tackling Inequality

Inequality is an inevitable consequence of a competitive market economy. It can provide an incentive to improve one's economic wellbeing, and lead to improvements in productivity and economic growth. However, inequality is a matter of concern when it raises the risk of people falling into poverty, when it threatens the legitimacy of institutions or creates social and political instability.

First and foremost, societies should strive for equality of opportunity, not equality of outcome, through employment and social policies that activate people into work, enhance employability, support economic and social mobility, and provide support to those most in need and struggling with transition into the labour market.

OECD studies have shown that trends in income inequality may result from the complex interplay of factors such as globalisation, technological development, flexible labour markets, fiscal policies and increased competition. At the same time, however, these same forces are key drivers of growth and higher productivity – and they are fundamental to raising wages overall. Thus, it is critical that discussions around these factors are considered in the context of the positive income, growth, employment and social mobility opportunities they can create.

In some countries gaps between lowest and highest wage earners have continued to increase. But lowering the top income earnings is not the solution. Rather the aim should be to raise income levels overall through employment in higher value, higher skilled jobs. With respect to the highest income earners, today many companies are taking steps to make executive pay more transparent, and contingent on medium or long term performance as opposed to short term reward, with the aim of greater economic stability.

In addressing inequality concerns, business encourages the following points:

- **Remove obstacles to higher incomes through effective and balanced benefit systems and tax policies, which do not create undue burdens on employers and provide the incentive for people to work.** Social benefit systems should incentivise low wage earners to improve their earnings by ensuring that the phasing out of income supports does not discourage taking on higher paid work. It is important for policy makers to look at both sides of an employment relationship to ensure that workers and employers alike can benefit from an offer of higher wages, supporting both the economic well being of the individual and the sustainability of the enterprise.

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- **Support flexible approaches to work:** Flexible forms of employment such as temporary agency work, part-time work or fixed term contracts can offer opportunities for the low-skilled and the long-term unemployed, who may find it particularly difficult to access the labour market, to join or rejoin the world of work. It is important that social policies are effectively linked to all types of work to avoid further development of segmented labour markets on this basis.
 - **Ensure access for all to quality education and training that directs individuals into higher skill, higher productivity jobs that offer higher wages.** Economic empowerment and social mobility are best supported through access to quality initial education and training, and continued learning opportunity. To equip individuals with the skills they need to work in a rapidly changing labour market, and to engage in emerging innovative industries, curricula should focus on key competencies, such as literacy and numeracy, as well as the development of “21st Century skills” such as creativity, critical thinking, collaboration, communication and a rebalancing of curricula in favour of science, technology, engineering and mathematics (STEM).

Policymakers should also ensure that high quality vocational education and training (VET) systems with strong labour market orientation are expanded, with greater participation by young people and vulnerable social groups, and with more opportunities for transfer into tertiary level academic education and vice-versa.

Conclusion

Role of Business

Employers are actively working with governments, employees and businesses organisations, to identify best practices and to implement practical measures, to ensure readiness of firms and employees for continued change, and successful and sustainable growth.

These efforts are aimed at ensuring that companies can emerge from the economic downturn with renewed confidence, to grow and create jobs. Social policy has a critical role in this recovery and should in the short term provide support to those in need with a view on long term employability and well being.

In this endeavour, communication between policymakers and economic actors, including employers and their employees, and social dialogue is essential. The objective of this dialogue should be the identification and timely implementation of practical approaches to mutually identified goals.

Recommendations for OECD Work

Business looks to OECD for its fact based analysis and its development of indicators that support effective social policy making and appreciates the ongoing work of OECD in many relevant areas to social policy.

BIAC welcomes continued cross country analysis of social policy instruments and the interaction between social policy and relevant policy areas such as macroeconomic policy,

employment, migration, pensions, taxation, health and education. We also welcome the OECD project on gender equality. This is important work, which should also serve as important input to the G20 labour process.

Continued OECD analysis on inequality should focus on the related questions of income inequality, poverty, economic growth and labour market participation. In particular, the OECD should look into possible relationships between levels of inequality and variables such as economic growth and productivity, rather than directing efforts at reducing inequality as an end in itself.

BIAC also recommends that further analysis be done by OECD on the interlink ages between part time and temporary work contracts and social benefit systems in order that more effective policies may be developed to positively support flexible work options for all groups.